Required Report - public distribution

Date: 10/11/2012

GAIN Report Number: BR0821

Brazil

Grain and Feed Update

Imports of U.S. Wheat Estimated at Record 900,000 mt; Corn Production Forecast Up at 74 mmt, Exports Estimated at 19 mmt; Rice Export Estimates Surprise at 1.2 mmt

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Report Highlights:
Imports of U.S. wheat to Brazil are forecast at a record 900,000 metric tons (mt). Total wheat imports are forecast at 7.4 million metric tons (mmt), which will supplement the domestic market's reduced production of 5.2 mmt. Increased area planted to second crop corn is forecast to boost total corn production to 74 mmt. Corn exports from the 2011/12 mega-crop are estimated at a record 19 mmt. Rice exports have continued strong, estimated at 1.2 mmt.

Commodities:

WHEAT

Wheat Brazil	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,150	2,150	2,170	2,170	1,900	1,900
Beginning Stocks	2,598	2,598	1,862	1,862	1,762	1,742
Production	5,900	5,900	5,800	5,800	5,000	5,200
MY Imports	6,699	6,699	7,300	7,300	7,000	7,400
TY Imports	6,746	6,746	7,052	7,052	7,000	7,100
TY Imp. from U.S.	405	405	108	51	0	900
Total Supply	15,197	15,197	14,962	14,962	13,762	14,342
MY Exports	2,535	2,535	2,000	2,020	1,500	1,500
TY Exports	2,539	2,539	1,860	1,870	1,500	1,500
Feed and Residual	200	200	500	500	200	300
FSI Consumption	10,600	10,600	10,700	10,700	10,800	10,800
Total Consumption	10,800	10,800	11,200	11,200	11,000	11,100
Ending Stocks	1,862	1,862	1,762	1,742	1,262	1,742
Total Distribution	15,197	15,197	14,962	14,962	13,762	14,342
1000 HA, 1000 MT, MT/HA						

2012/13 Wheat Supplies:

The estimated area planted to wheat for 2012/13 is held constant at 1.9 million hectares. Post's production estimates are 5.2 million metric tons (mmt), 4 percent higher than USDA's official estimates, as a reflection of historic yield trends. However, recent rains and frosts may decrease the yield and milling quality of the wheat in Rio Grande do Sul. Many of the seeds were supposed to have pre-harvest sprout resistant traits, but, with the rains, many are currently sprouting.

Keeping up with its reputation for frosts and other adverse weather patterns, southern Brazil has been hammered by intense rain, strong winds, hail and frosts over the past month. Some analysts are projecting wheat losses as high as 10 percent in the affected areas of state of Rio Grande do Sul solely because of the hail.

The movement from wheat to corn and soybean production will continue. At the same time, wheat prices have enjoyed recent highs, at various points hitting prices 30 percent higher than those of the same period last year. Many analysts and producers understand this to be a function of the short supply available. Nevertheless, many producers are shifting to wheat because the profit margins and liquidity of soybeans and corn have proved more appealing than current high prices in wheat.

2012/13 Wheat Consumption:

Total wheat consumption for 2012/13 is estimated at 11.1 mmt, slightly lower than the previous year. This is a reflection of the decrease in the use of wheat for feed, thanks to improvements in wheat quality and feed alternatives available in the massive corn stocks.

New Mills to Augment Milling Idle Capacity: The state of Paraná is adding two new mills to a state with already 70. Milling capacity is estimated at 3.3 mmt/year, whereas actual milling is estimated at only 2.65 mmt/year, with idle capacity already at 20 percent.

New Wheat Classification Expected to Bring Segregation Problems, but Also Add Value: The new wheat standards (Normative Instruction # 38, 2010) entered into force in July 2012, introducing four classification types instead of only three used before. The new classification system is expected to create some initial problems for the milling industry, as the change will require new infrastructure, including machinery and trained personnel. In spite of the growing pains, the new standards are expected to aid both producers and processors, providing incentives to farmers to produce better quality wheat and helping processors get the wheat quality they need for optimal milling.

Brazilian Government Subsidies for Wheat Sales: The Ministry of Agriculture announced a budget of US$165 million to subsidize wheat sales, enough money to assist the sale of 2.5 mmt, almost half of all the estimated domestic wheat produced. Brazil's National Company of Food Supply (Conab) is authorized to use these funds to ensure wheat producers are paid at least the minimum price guaranteed by the government. Conab administers these funds through several agricultural support programs, notably the "Equalization Premium Paid to the Producer" (PEPRO) and the "Premium for Product Outflow" (PEP) programs.

2012/13 Wheat Trade:

2012/13 wheat imports are estimated at 7.4 mmt. Unless Brazilian total wheat consumption drastically diminishes, increased imports are imperative to supplement the 2012/13 production, which is estimated to be at a five-year low of 5.2 mmt. The ten percent decrease in production from 2011/12 comes to a market that has traditionally been 50 percent reliant on imports to supply it domestically. A record 900,000 mt of wheat imports from the United States are estimated, based on lower projected availability of Mercosul wheat and the traditional role of the United States as a supplier of high quality wheat for blending purposes.

2012/13 wheat exports are estimated at 1.5 mmt, a reduction of 25 percent compared to 2011/12 exports. Part of the explanation for this reduction is the more favorable position of domestic wheat for Brazilian millers. There are two explanatory factors: (1) international wheat prices (particularly the wheat of Argentina, Brazil's largest supplier) are above domestic prices, in many cases by margins as high as 20 percent; (2) domestic wheat quality continues to improve. Rio Grande do Sul is reporting forward contracting of 800,000 mt of wheat for export, more than double what was forward contracted at this time last year. (Brazil tends to export lower quality wheat and feed wheat.)

2011/2012 Wheat Supplies:

To help alleviate the short supply available to domestic mills, Conab sold 491,500 mt of wheat from public stocks, which are also short, from February to early September. The vast majority (487,000 mt) was auctioned in the late May through early September period. In the middle of September, in response to Parana state cooperative producer groups' petitions, Conab announced that it would forego further public sales because of the upcoming wheat harvest in the state of Rio Grande do Sul and the ongoing harvest in the state of Paraná. Both the industry petition and the cessation of auctions have been contentious. With its wheat already half harvested, Paraná's industry feared government auctions would impact current market prices and that auctions would lower domestic prices. Auctioned products were sometimes as much as 50 percent lower than market prices. However, recent Conab auctions mostly offered wheat from Rio Grande do Sul, whose last harvest was characterized by relatively higher wheat quality. Conab's objective was to provide wheat to short-supplied millers in Rio Grande do Sul, where the wheat harvest will not be in full swing until November, and to lower public stocks to make space for the harvest under way.

Stocks in general are reported to be low, at 1.74 mmt, due to the relatively higher quality of the wheat and thanks to export assistance. Exports have been of particular importance to Rio Grande do Sul in 2011/12 and have greatly aided the commodity's liquidity for members in the supply chain.

2011/12 Wheat Consumption:

A disconnect has arisen between sellers and buyers over the last month. With wheat prices hovering around near-record highs, producers in Paraná have been asking for prices that sellers are not willing to pay. This stalemate can only last so long. From the seller side, (1) more wheat will be harvested soon, increasing the available domestic supply, (2) international market price uncertainty will lead to some hasty selling decisions, and (3) storage is in short supply. From the buyer side, private stocks particularly at the mills are minimal and operations can only run so long before further purchasing.

2011/2012 Wheat Trade:

2011/12 wheat imports have been recorded at 7.052 mmt. Wheat imports from the United States were lower than anticipated. Flour imports from January to August have been down eight percent compared to the same period last year. Fiscal policies that no longer grant Mercosul partners tariff exemptions for flour are a factor in this decrease.

Commodities:
CORN

Corn Brazil	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Mar 2011		Market Year Begin: Mar 2012		Market Year Begin: May 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	13,800	13,800	15,156	15,156	16,000	15,300
Beginning Stocks	9,989	9,989	10,276	10,276	10,807	12,357
Production	57,400	57,400	72,731	72,731	70,000	74,000
MY Imports	791	791	800	850	800	800
TY Imports	287	287	1,000	1,380	800	800
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	68,180	68,180	83,807	83,857	81,607	87,157
MY Exports	8,404	8,404	19,000	19,000	16,000	17,000
TY Exports	11,583	11,583	12,700	12,700	19,000	18,000
Feed and Residual	42,500	42,500	46,000	45,000	47,500	47,000
FSI Consumption	7,000	7,000	8,000	7,500	8,500	8,000
Total Consumption	49,500	49,500	54,000	52,500	56,000	55,000
Ending Stocks	10,276	10,276	10,807	12,357	9,607	15,157
Total Distribution	68,180	68,180	83,807	83,857	81,607	87,157
1000 HA, 1000 MT, MT/HA						

2012/2013 Corn Supplies:

2012/13 area planted to corn is forecast at 15.3 million hectares, a slight increase from the 15 million hectares in 2011/12, but also a downward revision from the USDA official forecast of 16 million hectares. The area planted to corn is forecast to increase thanks to growth in production area for second crop corn. The downward revision reflects changes in planting decisions, as farmers in multiple states, but particularly in the South, have shifted from first crop corn to soybean production (a six percent loss is forecast in Rio Grande do Sul). Soybean prices and relatively better liquidity continue to appeal to producers. Corn production is forecast at a record 74 mmt: this is predicated on improved seed varieties, augmented area planted to second crop corn, and average rainfall—i.e. the absence of a drought, like the one that afflicted the 2011/12 first crop corn in the South and Southeast.

First crop corn planting is underway in southern Brazil; close to 30 percent of the planting is complete in Paraná and 35 percent in Rio Grande do Sul. In early September, some analysts were concerned that the lack of early rains in the South would delay the planting and impact the yields. In light of the frosts that followed, this initial delay in precipitation may have been a blessing in disguise, preventing early corn losses. At that same period in early September, some farmers in Rio Grande do Sul bet on the early rain and planted early some 20 percent of the estimated corn area in the state: much of that early-planted corn has had to be replanted. While such replanting will impact the bottom line for these producers, there is sufficient time to replant, with timely harvests expected in February and March. Some producers in Paraná also planted before the rains arrived, betting that new seed treatment would grant enough resistance so the seed could remain longer without water. The rainy season arrived on time for most of the states in the Center-West and Southeast regions. The slightly delayed first crop corn planting is not forecast to impact production or productivity for the first crop. Soybean plantings will not enjoy the early start that they had last year as a result of the early rains. As a result and unlike last year, the second crop corn will miss out on the benefits of the jumpstart.

Forecast Biotech Adoption Rates: According to the agricultural consulting firm *Celeres*, Brazilian corn producers will have a 62.6 percent biotech adoption rate for first crop corn and an 87.8 percent adoption rate for second crop corn. Traditionally, first corn crop producers have greater experience in managing corn production. The confidence that first crop corn producers have in their own expertise and experience, coupled with typically predictable rainfall, are factors behind the relatively lower adoption rate. Many second crop corn producers, without this same corn production experience and without consistency in precipitation, hedge more in biotech varieties.

2013/2013 Corn Trade:
2012/13 corn exports are forecast at 17 mmt. With a forecast record production, Brazil will have a vast supply for export. 2012/13 exports may be predicated on the 2011/12 experience, as Brazil gains new customers and increases its export potential. Export potential will be tempered by export channel logistics, particularly port congestion, and increased transportation costs. A new labor law, Law 12,619 (adopted on April 30, 2012, and in effect as of June 17, 2012), limits the number of hours and increases mandated breaks for truckers. Because of this law, logistical costs are expected to increase 26 to 30 percent (contingent on the distance being trucked). In addition, sources indicate that Brazilian trucks experience more wear and difficulty hauling corn, as opposed to soybeans, given its different characteristics, namely weight and uniformity. Many producers in logistically-challenged locations like Mato Grosso may evaluate second crop corn production with more scrutiny as logistical and transportation costs eat away their bottom line.

2011/2012 Corn Supplies:
Brazil has completed the 2011/12 second corn crop harvest. 2011/12 production is estimated at 72.73 mmt. In summary: Never before has Brazil dedicated so much area to corn or produced so much corn, at the national or regional level. Yield estimates are indicating that the favorable weather lifted second corn crop productivity to 4.8 mt/hectare, in comparison to the 4.14 mt/hectare recorded for the first crop corn. Brazilian corn production increased 27 percent from 2010/11 to 2011/12. Even with a robust domestic consumption trend and record exports, the Brazilian market will be flush with corn. Producers and traders will inevitably assess the limited storage, in the face of an estimated record soybean crop: they will need to unload surplus corn on the market to make room for the soy crop. Corn price volatility and eventual reduction are probable outcomes by the end of 2012.

2011/2012 Corn Consumption:
2011/12 total corn consumption is estimated at 52.5 mmt, as Post slightly lowers the feed and residual consumption and the food, seed and industrial consumption (FSI) levels. Both segments have grown over the last year. However, domestic corn prices, largely buoyed by lower corn production in the United States due to the drought, have resulted in lower growth rates and total consumption levels.

Domestic sales have been slow for second crop corn, despite second crop corn success in export markets. Domestic buyers are loath to pay the high prices currently dictated by the market, even while the second crop corn harvest has concluded. High feed prices, particularly corn, have been hitting livestock and poultry producers hard. The state of Santa Catarina has reported cuts in 5,000 jobs and close to ten of its livestock-related (poultry and swine) agribusinesses are experiencing financial difficulties. While Conab has supported small players, the livestock sector is asking for subsidized freight, using PIS/Cofins export credits. With the petition requesting freight subsidies at US$41/mt, total support will stand at US$150 million. As an alternative, some government proposals seek to use the Price of Product Flow Program, VEP (see VEP section below), to supply livestock producers not just in the Northeast but also in the South. With the anticipated surplus stocks available, it is not out of the question for the government to acquire these stocks and sell them via VEP. In addition, over the past two months the government has been using its freight subsidization program to assist the movement of corn from the states of Mato Grosso and Goiás to other regions of the country. Brazil's poultry industry association has gone so far as to state that government assistance is needed to subsidize the movement of at least 3 mmt from the Center-West to the South.

2011/2012 Corn Trade:
2011/12 corn exports are estimated at a record 19 mmt. Second crop corn has experienced strong exports over the past three months and it is expected to do well in export markets for the next three months. August exports registered a record 2.76 mmt until September exports surpassed it and set a new record at 3.147 mmt. The soybean harvest will begin to occupy all transportation infrastructure beginning in February. With the record corn exports, Mato Grosso notably was responsible for almost 50 percent of the corn exports in the month of August. Should Brazil reach this export estimate, it will pass Argentina to become the world's second largest corn exporter, behind only the United States.

According to the Ministry of Development, Industry and Commerce (MDIC), the Ministry of Agriculture has requested that MDIC closely track corn exports to avoid internal shortages. It is unlikely that such a fear will come to fruition.

Brazil Corn to the United States: Due to the difficult situation facing U.S. livestock and poultry producers, the United States imported corn from Brazil. By the end of September, Brazilian official export records have only shown 106,000 mt to the United States. Traders, however, are estimating that by the end of 2011/12, Brazil will have exported between 1.8 and 2.7 mmt of corn to the United States. The corn has predominantly gone to the U.S. Gulf Coast, notably livestock and poultry producers in North Carolina. Most Brazilians, however, do not view this as a long-term opportunity but rather a short-term.

China Corn Protocol Update: The most recent updates from late July claim that Brazil has still not signed the phytosanitary corn protocol with China. The formal bilateral protocol, defining sanitary and phytosanitary specifications, that would facilitate Brazilian corn exports to China will go into effect upon signing. Reportedly, Brazil's Ministry of Agriculture has stated that Brazil is unable to sign the protocol since it requires Brazil to have mitigation measures in place for pests that do not even exist in Brazilian fields. It is uncertain whether the protocol stipulates certain varieties and the volume eligible for export. 2012/13 Chinese reports indicate that in an effort to reduce corn imports, due to high global prices, Chinese domestic production will increase. China's National Grain and Oilseed Information Center is forecasting China's 2012/13 corn imports at 1 mmt (comparable to its import levels in 2010/11), significantly lower than the USDA 2012/13 estimate at 2 mmt, and an 80 percent drop in comparison to its 2011/12 imports estimated at 5.3 mmt.

The *Price of Product Flow* (VEP): VEP is the sister program of Brazil's *Premium for Product Outflow Program* (PEP). When market prices dip below the official minimum price, Conab uses PEP auctions to negotiate contracts for private stocks at the market price plus a premium paid by the government. VEP functions in the same way except that Conab auctions public stocks instead of private ones. In late May, the Brazilian Government announced that it would auction 500,000 mt of public stocks of corn to supply the drought-stricken regions of the Northeast. Since then, multiple VEP auctions have taken place. All VEP auctions have specified that the purchases would need to have specified states in the North and Northeast as their final destination. These announcements preclude the option of international exportation. The corn has predominantly come from the states of Mato Grosso and Goiás, but recently Bahia was also included in the list.

2012 VEP CORN AUCTIONS			
	Auctioned (1,000 mt)	**Sold (1,000 mt)**	**Premium (US$)**
June	120.00	37.72	$5,375,270
July	54.34	5.97	$803,808
Aug	131.54	47.44	$8,892,628
Sept	90.02	44.07	$7,198,234
Total	395.90	135.20	$22,269,939

Commodities:
RICE, MILLED

Rice, Milled Brazil	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Apr 2011		Market Year Begin: Apr 2012		Market Year Begin: Apr 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,833	2,833	2,427	2,450	2,400	2,400
Beginning Stocks	550	550	803	803	491	273
Milled Production	9,300	9,300	7,888	7,820	7,820	7,820
Rough Production	13,676	13,676	11,600	11,500	11,500	11,500
Milling Rate (.9999)	6,800	6,800	6,800	6,800	6,800	6,800
MY Imports	632	632	750	750	750	650
TY Imports	591	591	660	720	750	620
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	10,482	10,482	9,441	9,373	9,061	8,743
MY Exports	1,479	1,479	900	1,200	600	700
TY Exports	1,296	1,296	1,100	1,450	800	850
Consumption and Residual	8,200	8,200	8,050	7,900	8,050	7,800
Ending Stocks	803	803	491	273	411	243
Total Distribution	10,482	10,482	9,441	9,373	9,061	8,743
1000 HA, 1000 MT, MT/HA						

2012/2013 Rice Supplies:
The 2012/13 forecast area planted to rice remains at 2.4 million hectares, slightly less than the 2011/12 area planted to rice. Production forecasts are also held at 7.82 mmt. 2012/13 rice planting began in early September in Rio Grande do Sul, the largest rice producing state. Some area planted to rice in 2011/12 will be lost to soybean production: an estimated three percent is forecast to be lost in Rio Grande do Sul. This is particularly the case for those regions which have had lower precipitation levels over the past four months, leaving insufficient water supplies for rice production. Industry surveys conducted in early September indicated that Rio Grande do Sul's water levels (in rivers and reservoirs) were sufficient to irrigate only 59 percent of the total area forecast to be planted to rice. Since mid-September, rainfall has increased significantly in the state but it will be unable to make up entirely for the lack of rainfall over the past four months.

On August 2, 2012, ample time before planting began, Brazil's Central Bank authorized the renegotiation of credit and debt for rice producers. Credit for rice producers has been hard to come by in the past few years, and this was exacerabated by the 2011/12 drought in the South. Options for extending debt repayment should make it easier for rice producers to obtain further credit for the 2012/13 crop.

2012/2013 Rice Trade:
2012/13 rice exports are forecast at 700,000 mt. The Brazilian industry and the Brazilian government are both actively working to increase the country's rice exports. However, consumption and production are essentially at the same level, as are forecast imports and exports. The changing variable is lower stocks, which will not allow Brazil to export at the same levels of the past couple years.
2011/2012 Rice Consumption:

Domestic rice associations are lobbying the Brazilian government to modify the current caloric intake allocated by law to rice consumption in school lunch programs. Currently, students derive 20 percent of their caloric intake from rice; the industry proposal aims to increase this to 30 percent, effectively raising the volume of rice consumed in schools by 50 percent.

Conab has been using its sale program, "Venda," to auction public stocks of rough rice from Rio Grande do Sul and Mato Grosso. Conab has also been using its product exchange program, "Troca," known as "the Product Sale and Simultaneous Purchase Program." Through this program, Conab sells rough rice in exchange for milled rice. The program works as an auction whereby Conab and participants agree on a fixed barter price for the exchange of both the milled and the raw product. Both programs have been significantly active from late August through the time this report was prepared in early October.

Rice prices relatively constant: Some macroeconomists have pointed to rice prices as signals of national inflation. Recent survey results demonstrated, however, that 2012 prices returned to the price levels of 2008 and 2010. 2011 prices decreased, in a deviation to this trend. The base price used for the study was from July 2012 at R$1.96/kg. Since then and by mid-September, prices have reached the highest levels since 2004.

2011/2012 Rice Trade:
2011/12 exports are estimated at 1.2 mmt, 33 percent higher than the USDA official estimates. Exports have been strong thanks to the favorable exchange rate and to a more concerted industry effort to export. Curiously (since Conab normally administers stipulated programs as opposed to setting export goals), Conab had set a goal for rice exports: the goal for 2011/12 is 1 mmt. By the end of the first half of the year, Brazil had already met this goal—14 percent higher than the same period in 2010/11. Some industry analysts are estimating a MY2011/12 export volume as high as 1.5 mmt.

Brazil's Mercosul Rice Imports: The primary countries supplying Brazil's rice imports are its Mercosul partner countries. In 2004, a legislative error exempted rice imports from the PIS/Cofins tax, an exemption intended only for domestic production. Since then, rice imports have been exempted from paying the 9.25 percent tax. In July and August, the House of Representatives and the Senate, respectively, approved a measure to repeal this tax exemption for Mercosul. A congressional inquiry panel had made the recommendation based on Mercosul market asymmetries (i.e. rice producers from other Mercosul member countries have lower input costs and production costs than Brazilian rice producers), with the blessing of the domestic rice industry. On September 18, President Dilma vetoed the measure. For the time being, the status quo remains.

Related Report References:

2012 Brazil Annual Grain and Feeds Report
April 2012 Brazil Grains and Feed Update
July 2012 Brazil Grains and Feed Update